

Minister of Finance



Ministre des Finances

Ottawa, Canada K1A 0G5

MAR 27 2018

2018FIN471071

Commercial Confidential

Mr. Michael P. Mackasey
Chair
Canada Development Investment Corporation
1240 Bay Street, Suite 302
Toronto, ON M5R 2A7

s. 14(a)
s. 14(b)
s. 20(1)(b)
s. 20(1)(c)
s. 20(1)(d)
s. 21(1)(a)
s. 21(1)(b)

Dear Mr. Mackasey:

[REDACTED]

faced. The consideration of any options for [REDACTED]
[REDACTED] will require due diligence on the part of the federal government,
including with the assistance of specialist advisors.

Given the Canada Development Investment Corporation's (CDEV) objects, mandate and history in the management of the Government's commercial interests, I am requesting CDEV's support in securing expert third party financial, commercial and legal advice with respect to options for the Government's participation in the Trans Mountain Pipeline expansion project. [REDACTED]

[REDACTED]

I expect the procurement of third party expert advice to be consistent with the Government's practices and to be able to withstand public scrutiny, with particular attention to value for money and efficiency. In order to ensure that the selection process is transparent and leads to the best possible advice being obtained, CDEV will have complete responsibility for identifying and engaging third party experts. Neither I, nor my staff, nor my officials will be involved in the development of selection processes or in the identification of particular consultants.

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2018FIN473412

Mr. Michael P. Mackasey
Chair
Canada Development Investment Corporation
1240 Bay Street, Suite 302
Toronto, ON M5R 2A7

Dear Mr. Mackasey:

The Government of Canada has reached an agreement with Kinder Morgan Inc. to purchase the company's Trans Mountain Expansion Project and related pipeline and terminal assets. The transaction is anticipated to close in September 2018. In the interim, the Government may seek to sell the project and related assets to a third-party buyer.

Given the Canada Development Investment Corporation's (CDEV) objects, mandate and history in the management of the Government's commercial interests, I am requesting CDEV's support in undertaking the steps necessary to assist in the potential marketing and future sale of the Project and related assets.

In my correspondence of March 27, 2018, I requested that CDEV secure expert third party financial, commercial and legal advice with respect to options for the Government's participation in the Trans Mountain Expansion Project. At this time, given the need to rapidly execute the agreement with Kinder Morgan and the Government's objective to immediately market the assets, I would ask that CDEV take the steps necessary to ensure it has effective financial, commercial and legal advisors in place. These advisors would need to be well positioned to assist throughout the potential marketing and future sale process with Kinder Morgan Inc.

I would like to emphasize the urgent and extraordinary nature of these requests. It is a top priority of the Government to ensure completion of the Trans Mountain Expansion Project so as to deliver long-term economic benefits to Canadians – protecting jobs, ensuring that Canada's resources can get to world markets safely and efficiently, and preserving Canada's reputation as a good place to invest.

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Canada Development Investment Corporation La corporation de développement des investissements du Canada

Commercial Confidential Memorandum

To: CDEV Board, Last Spike File

From: A. Stafl, CDEV, Project Last Spike - Project Manager

Date: 5 June 2018

Re: Summary of Due Diligence – Project Last Spike

s. 18(b)

Background and retention of advisors

In early April of 2018 the Minister of Finance request CDEV to provide assistance to the government in its analysis regarding the request for support from Kinder Morgan and the development of the Trans Mountain Expansion Project (TMEP or TM for Trans Mountain). Under this mandate CDEV conducted a competitive process to hire Greenhill LLC as Financial Advisors and BLG as Legal Advisors. Shortly after project initiation we reviewed certain documents provided by KM indicating that an engineering firm Leidos had prepared an Independent Engineer's report in May 2017 as part of the IPO for Kinder Morgan Limited. This firm was familiar with the existing pipeline as well as monitoring construction draws for the existing KM bank facility. Leidos was retained by the bank syndicate, not KM. Given this knowledge, Leidos's independence from KM, and the necessity to develop a draft report by the middle of May, CDEV retained Leidos under a sole source contract with an initial cost estimate of about [REDACTED] on a time and material basis.

CDEV retained John Carruthers, the former head of the Northern Gateway oil pipeline project led by Enbridge, as a contractor. His knowledge of pipeline economics and issues in Western Canada has been very important in our due diligence efforts. Under his suggestion CDEV discussed the need for a firm to evaluate TM's Integrity Management Programme and operations for the existing pipeline and evaluate where possible, processes being considered for the expansion. John suggested Dynamic Risk, a firm that has evaluated the TM operations in the past and with whom John is familiar. Given the need to have a draft report by mid-May we retained Dynamic Risk on a sole contract basis for about [REDACTED] on a time and material basis. During the Dynamic project we increased certain deliverable requests to cover the Puget pipeline and abandonment costs estimates. The quantity of documents reviewed was also much higher than initially estimated. To cover environmental issues primarily on the existing pipeline we asked Leidos to include a review of their environmental policies and practices as well as a review of prior reported instances. Under recommendation of John Carruthers we retained Muse Stancil to update a report they had done for KM a year ago regarding the economics of the TMEP from the shippers point of view focusing on the marginal demand and value to a Alberta based oil producer of shipping through TMEP vis a vis other pipelines or rail. The costs for Muse was approximately [REDACTED].

We hired an individual John Anderson (Anderson & Associates) to review KM's environmental records and systems [REDACTED]. We also hired an individual Bob Samels to review certain regulatory issues as needed and Bob Viccars, an individual who provided

s. 18(b)

certainty.) Near the end of the report L identified which areas of focus require more work before more detailed opinions are possible.

One key risk and variable identified by Leidos is the Project Scheduling. [REDACTED]

[REDACTED]

[REDACTED]

[REDACTED] As well the high-profile of the project provides incentive to the contractor to do a good job. The pipe supply contracts need more review to ensure that they are consistent with those of similar projects.

On May 25 Leidos prepared a second and final draft of the report. Final conclusions were:

- KM has the ability to execute the project
- The route is suitable given geotechnical assumptions
- Project has a useful life of at least [REDACTED]
- It is noted that some capital costs overruns can be passed onto the shippers
- General terms of the construction contracts are consistent with industry practice except for cost overruns as noted above.
- Pipe supply contracts are consistent with industry norms
- The costs estimate provided by the company of [REDACTED] as presented is between a Class II and Class I. Using industry standard deviations in costs, the estimated cost of the project including financing is between [REDACTED]
- [REDACTED] The increase is due to the fact that many permits and contracts have yet to be executed and a significant number of risks remain open.
- Further work on the work schedule is required before any opinion on the adequacy of the schedule is confirmed. [REDACTED]
- [REDACTED]
- KM's staffing plan is consistent with other such projects.
- The methodology to prepare the estimate is reasonable.
- Projected throughput is consistent with the noted capacities of the pipelines.
- L is not aware of any technical circumstances that would prevent receipt of required environmental permits.
- Environmental protection requirements should be met.
- Historical operating and maintenance expenses and sustaining capital expenditures are reasonable.
- KM has a robust Environmental, Health and Safety organization in place. The current environmental monitoring and remediation projects appear to have the proper planning and approvals to move forward and satisfy regulatory authorities.

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